

**IRS EXPANDS, SIMPLIFIES ITS TIP INCOME COMPLIANCE AGREEMENTS**

WASHINGTON – The Internal Revenue Service announced today that it is simplifying its voluntary tip income compliance agreements and expanding them to all industries where tipping is customary. Also, IRS will now allow employers in the food and beverage industry to design their own agreements. Finally, the IRS will resume enhanced enforcement efforts in cases of serious noncompliance at businesses where tipping is customary.

Under TRDA (Tip Rate Determination Agreement), the IRS and the employer work together to determine the amount of tips that employees generally receive and should report. Under TRAC (Tip Reporting Alternative Commitment), the employer agrees to educate employees and establish tip reporting procedures. In return for taking part in TRDA or TRAC, IRS agrees not to initiate tip examinations of the employer while the agreement is in effect. These agreements are designed to help employers and employees understand and meet their tip income reporting responsibilities.

Until now, only the gaming, food and beverage, cosmetology and barber industries were able to make these agreements with the IRS. The IRS has simplified and shortened the TRDA and TRAC for the food and beverage industry and the TRAC for the cosmetology and barber industry. In addition, the latter agreement will now allow business owners with booth renters or independent contractors to participate.

In another new development, the IRS has now developed a TRDA and a TRAC for other industries where tipping is customary. Employers that can participate include taxicab and limousine companies, airport skycap companies and car wash operations.

The updated agreements were released today in Announcements 2000-19 through 2000-23.

In addition to TRDA and TRAC, the IRS will now permit employers in the food and beverage industry to design their own program through EmTRAC (Employer's Tip Reporting Alternative Commitment). This is in lieu of the IRS developed TRAC. EmTRAC will include the same employer commitments and protections as afforded under the TRAC agreement. This option is now being

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offered to food and beverage employers. Later, the IRS will consider expanding this option to other industries. This option will allow these employers the flexibility to develop a program that would best serve their needs.

Notice 2000-21, also released today, gives employers in this industry information on developing their own plans.

"These changes reflect the IRS's continued effort to use education and outreach to help taxpayers voluntarily comply with the nation's tax laws rather than solely relying on enforcement actions," IRS Commissioner Charles O. Rossotti said. "We are very pleased with the cooperative efforts of participating businesses that make these agreements work so well."

The IRS will accept public comments for 60 days on these changes or on other aspects of this program that will help to further improve voluntary compliance. Announcements 2000-19 through 2000-23 will be published in Internal Revenue Bulletin 2000-19, dated May 8, 2000. Notice 2000-21 will appear in the same Bulletin.

The IRS also announced today that when there are flagrant violations of the tip reporting rules, effective October 1, 2000, it will resume tip examinations and assessments for FICA taxes on employers only, without first determining the tip income of individual employees.

IRS has had a self-imposed moratorium on making such assessments while the courts have been deciding this issue. However, three Federal Circuit Courts of Appeal have now clearly found that IRS does have the authority to assess employer FICA taxes on tip income without first examining the tip records of individual employees. The IRS will make employer-only FICA tax assessments only in the most extreme cases of noncompliance.

"Many people are willing to comply with their responsibilities for correctly reporting tip income, and we have set forth a non-burdensome method for them to comply," Rossotti said. "However, there are still some people who are flagrantly willing to throw the burden on other taxpayers. We will use the power that the courts have given us to make sure that they don't unfairly burden their competitors."

IRS will also continue to examine the tips received by individual employees as appropriate. Tipped employees should make sure they keep good records to support the actual tips received.

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